

Military Housing Privatization Initiative (MHPI) - 101



March 2004

MHPI 101 Presentation with Cover

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- Understanding the MHPI Objectives
- Housing Privatization Process Overview
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- Reason for Government Contribution
- Federal Budgetary Scoring and MHPI
- Why We Get More Housing *Now* Using Privatization
- Proposal Evaluation Process
- Pre-Closing Activities
- Questions, Answers, and Reference Materials



Program Background and Legislative Mandate



Program Background and Legislative Mandate

In the early 1990s, the United States Department of Defense (DoD) determined that the following public policy problems existed

- *Over 60 percent of DoD owned housing was inadequate*
- *There was a shortage of quality, affordable housing available to military service members and their families in local communities*
- *If this problem were addressed using Military Construction (MILCON), the costs were projected to be high and the timeframe long*



Program Background and Legislative Mandate

Public policy problem:

- In 1996, DoD's housing was in need of repair:

With respect to family housing

- 600,000 units were off-base, of which 15% were unsuitable
- 300,000 units were on-base, of which 66% were in need of repair
- Using 1996 MILCON funding levels to resolve the problem, the costs were estimated to be \$20 billion, and the timeframe 30 years

With respect to "unaccompanied housing"

- 100,000 units were off-base
- 450,000 were on-base, of which 62% were in need of repair
- Using 1996 MILCON funding levels to resolve the problem, the costs were estimated to be \$9 billion and the timeframe indefinite

- There was not enough MILCON \$\$ to fix the problem



Program Background and Legislative Mandate

Public policy solution:

- The 1996 National Defense Authorization Act, signed into law in February 1996, gave life to the Military Housing Privatization Initiative (MHPI)
- The MHPI authorities have since been extended twice
 - *The 2001 National Defense Authorization Act extended the MHPI authorities to December 31, 2004*
 - *The 2002 National Defense Authorization Act extended the MHPI authorities to December 31, 2012*
- The MHPI consists of tools (legislative authorities) that facilitate real estate transactions between the government and private developers and lenders



Program Background and Legislative Mandate

- The MHPI legislation allows the Services to offer one or more of the following tools in their military housing privatization deals

- Direct loans
- Guarantees: loan, rent, and occupancy
- Investments in non-governmental entities
- Limited partnerships
- Sell, contribute, convey, or lease DoD-owned property

- Differential Lease Payments
- Build-to-lease
- Assignment of service members to the privatized housing units
- Allotments to pay rent
- Build to local standards
- Ancillary support facilities

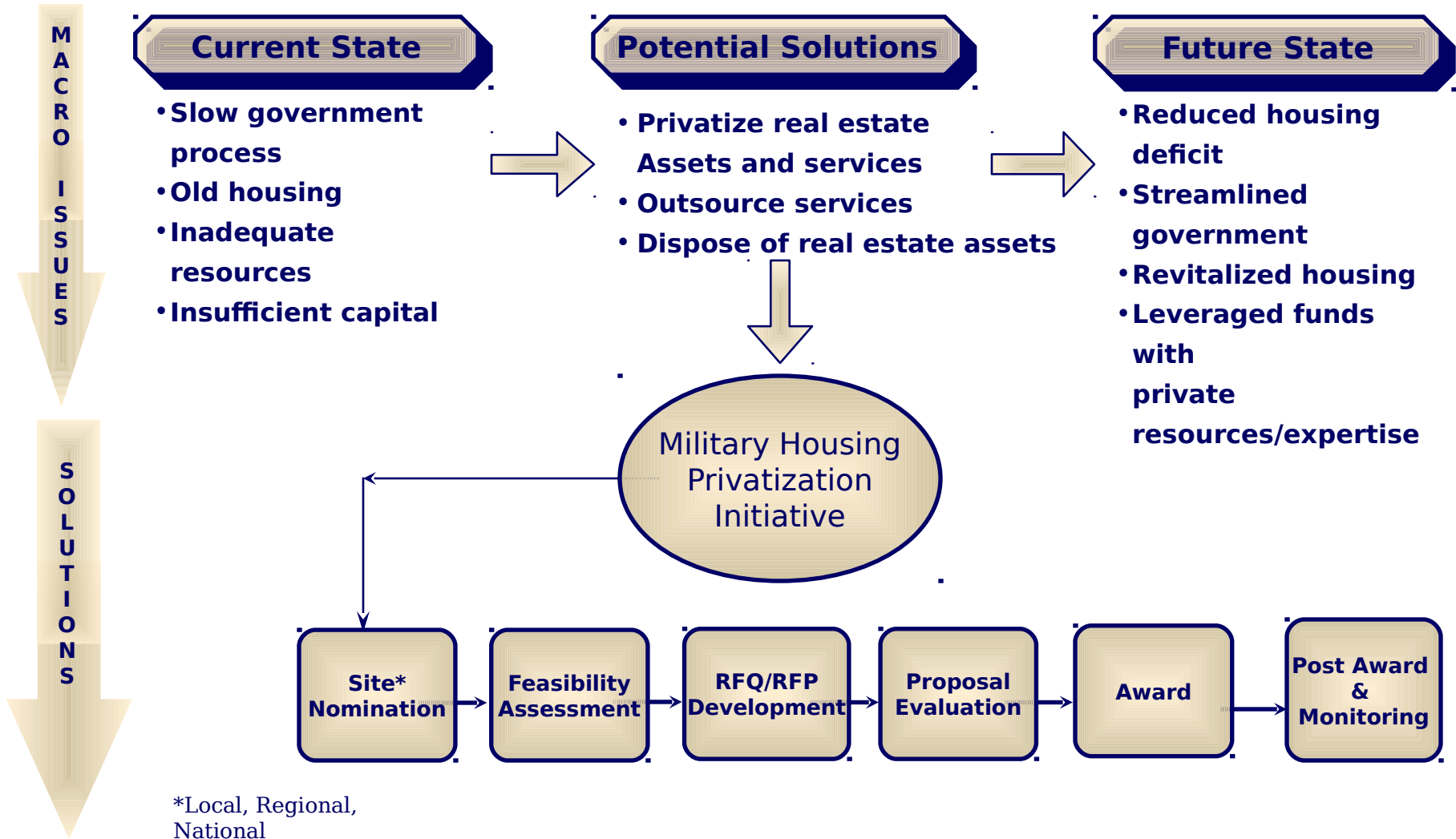
See also the MHPI Authorities at <http://www.acq.osd.mil/housing/la.htm>



Understanding the MHPI Objectives



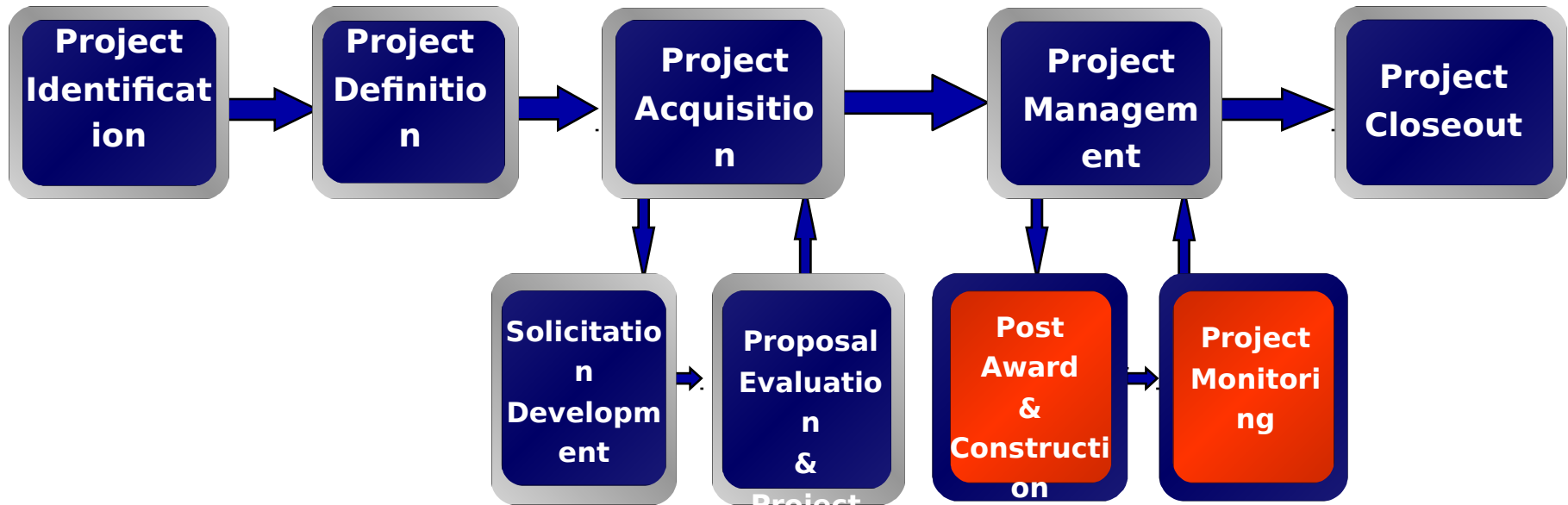
Understanding the MHPI Objectives



Housing Privatization Process Overview



Housing Privatization Process



The Military Services use a process similar to this illustration to identify, plan, execute, manage and close housing privatize deals.



Primary Legislative Authorities



Primary Legislative Authorities

The MHPI Authorities can be categorized, generally, as three types of tools:

1) Real Estate Tools

- Conveyance and/or Lease
- Rent & Occupancy Guarantees
- Build-Lease
- Build to Local Standards

2) Financial Tools

- Direct Loans
- Loan Guarantees
- Rental Payment by Allotment

3) Investment Tools

- Acquisition of Limited Partnership Interest
- Stock and Bonds



Primary Legislative Authorities

1) Real Estate Tools - Conveyance or Lease Property

DoD may convey or lease property or facilities to parties in the private sector who will use that property to provide suitable housing for service members.

Present Application

- Contribution of Government Assets
 - Ground lease of on-base military land
 - Conveyance of existing improvements and off-base land



Primary Legislative Authorities

1) Real Estate Tools - Rent and Occupancy Guarantees

DoD may ensure occupancy or rental income for non-governmental entities involved in the acquisition and/or construction of housing and support facilities.

Present Application

- Not commonly used
- Rental and Occupancy Guarantees are not a useful tool
 - Office of Management and Budget (OMB) scoring rules make this tool cost prohibitive



Primary Legislative Authorities

1) Real Estate Tools - Build/Lease

DoD may lease housing units to be constructed.
Contract may include operations and maintenance.

Present Application

- Not generally considered a useful tool
 - Office of Management and Budget (OMB) scoring rules make this tool cost prohibitive



Primary Legislative Authorities

1) Real Estate Tools - Build to Local Standards

DoD may allow owners of privatized housing to build to state and local standards and codes, rather than require the owners to build to traditional MILCON standards

Present Application

- Considered a very useful tool
 - Reduces overall development costs
 - No scoring impact on privatized military housing project



Primary Legislative Authorities

2) Finance Tools - Direct Loans & Guarantees

DoD may loan money for the acquisition or construction of suitable housing used for service members

DoD may guarantee loans made to private sector parties if the proceeds of the loans are used to acquire or construct housing units suitable for service members

- Not to exceed 80% project value or outstanding loan balance, whichever is lower.



Primary Legislative Authorities

2) Finance Tools - Direct Loans & Guarantees (continued)

Present Application

- Useful tool to support development and facilitate private financing
 - Direct loans are effective tools for covering development gaps. Beneficial OMB scoring relative to other tools.
 - Current loan guarantee product is a “limited guarantee,” which protects lenders from risk of base closure, downsizing and deployment. Does not cover economic or market risk.



Primary Legislative Authorities

3) Investment Tools

DoD may invest in non-governmental entities involved in the acquisition and/or construction of housing and support facilities through:

- Limited partnership
- Stock purchase
- Bond purchase
- Other equity or debt instruments
- Or any combination of the above



Primary Legislative Authorities

3) Investment Tools (continued)

Present Application

- Useful tool for government contribution
 - Current preferred structure for completed and contemplated Navy and Army transactions
 - No benefit from credit reform scoring



Reason for Government Contribution

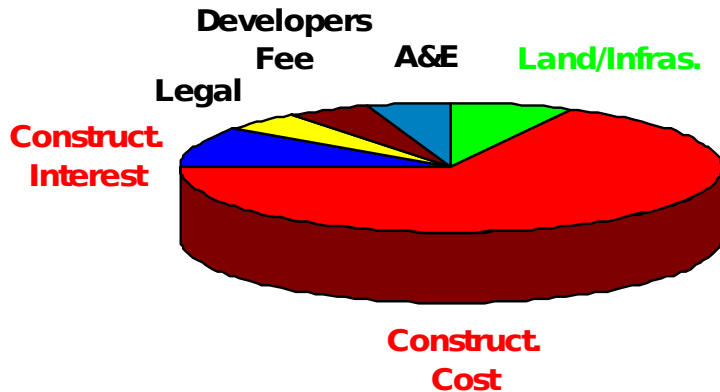


Government contributions, through use of the MHPI Authorities, are made to close development gaps, help improve the feasibility of transactions from a financial cash flow perspective, and in order to attract private sector participation (e.g., capital, developers, property managers)

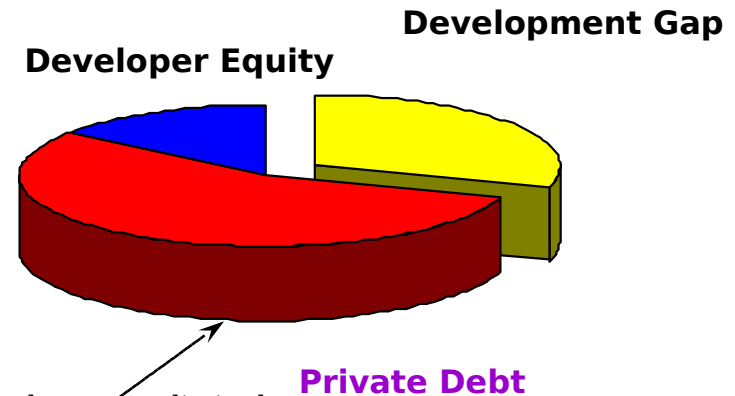


MHPI Real Estate Economics

DEVELOPMENT COSTS

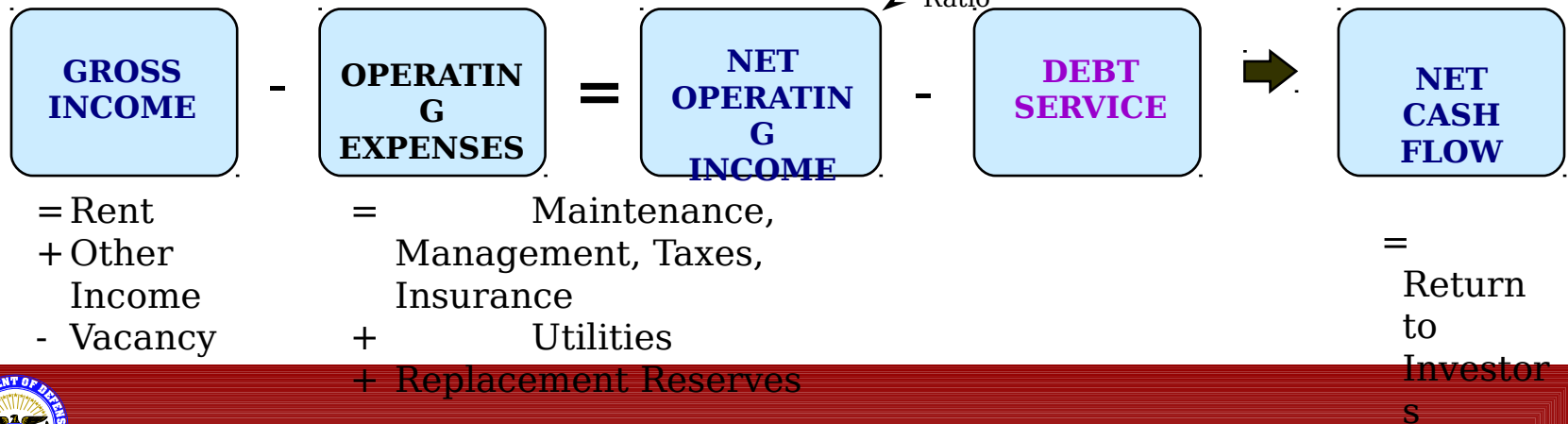


FINANCING

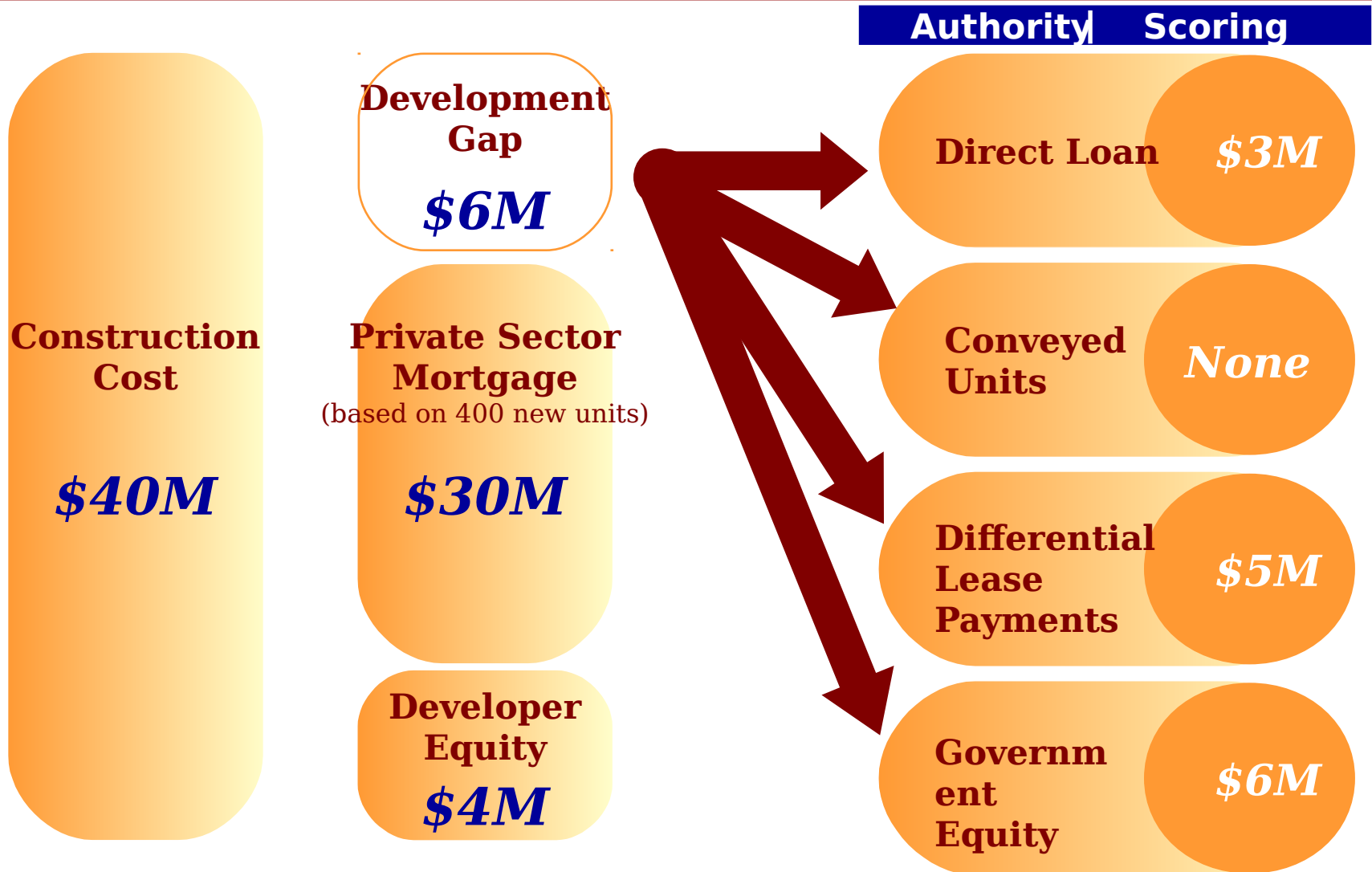


Can only support limited private debt due to Debt Service Coverage Ratio and/or Loan-to-Value Ratio

OPERATIONS



Reason for Government



Federal Budgetary Scoring and MHPI



Federal Budgetary Scoring and MHPI

What is Scoring?

- How the Federal Government budgets for the cost government activities
- Applies to all MHPI projects that expend cash, offers credit, or financially obligates the government to future expenditures (e.g., equity contributions, direct and guaranteed loans, differential lease payments, etc.)



Federal Budgetary Scoring and MHPI

MHPI Scoring Examples

- ***Direct Loans and Loan Guarantees:*** Obligations recorded (scored) equal to estimated credit subsidy
- ***Differential Lease Payments:*** Obligations recorded (scored) equal to net present value of payment stream over term of contract or lease.
- ***Limited Partnership or Bond Purchase:*** Obligations recorded (scored) equal to total cash investment.
- ***Conveyance of property:*** No scoring impact. Any cash proceeds from sale subject to appropriations.



Scoring Impact on MHPI Project Economics

MHPI Authority	Impact on Project Economics & Scoring
<i>Transfer of Land/Units</i>	Reduces total development cost by reducing land cost <ul style="list-style-type: none"> • No scoring impact
<i>Build to Local Standards</i>	Reduces total development cost by reducing construction cost <ul style="list-style-type: none"> • No scoring impact
<i>Limited Guarantee (against base closure, downsizing, and deployment)</i>	Ensures availability of private financing and reduces interest rate <ul style="list-style-type: none"> • Minimal scoring impact (3% - 7% of loan)
<i>Direct Loan</i>	Brings additional financing through more favorable underwriting and below-market interest rates <ul style="list-style-type: none"> • Moderate to high scoring impact depending on interest rate subsidy and deferral
<i>Differential Lease Payments</i>	Increases gross income <ul style="list-style-type: none"> • High scoring impact
<i>Build-to-Lease/Occupancy Guaranty</i>	Increases gross income and reduces interest rate by guaranteeing income <ul style="list-style-type: none"> • High scoring impact



Why We Get More Housing Now Using Privatization



Wright-Patterson, AFB, OH



Why We Get More Housing Now using Privatization

- The income stream from housing allowances provides access to private capital
 - Private debt (banks and other financial sources)
 - Equity
- Government contributions help leverage private capital and support development
 - Land
 - Existing housing
 - \$\$: debt, equity, and/or subsidy



Why we Get More Housing Now using Privatization

Sample MHPI Project Privatization

MILCON

Life Cycle Cost (NPV)		\$319M	\$277M
Total Development Cost		\$ 85.0M	\$73.0M
Gov't Appropriation	\$ 85.0M	\$15.3M	
Leverage Ratio	1:1	4.8:1	

Through the MHPI, the government

- Receives quality housing using private sector standards, at costs that are generally lower than MILCON
- Is able to leverage its appropriations against private capital, typically at ratios of 3+ to 1



Proposal Evaluation Process



MCB Camp Pendleton, CA



Proposal Evaluation Process

- DoD utilizes a Non-FAR competitive Request for Proposal (RFP) or Request for Qualifications (RFQ) process
- Proposals are evaluated based upon the development teams':
 - Experience and qualifications
 - Financial capacity
 - Design and construction concepts
 - Past performance
 - Proposed financial terms and conditions for the project
 - Cost to the government



The factors are not in any particular order of importance



RESIDENTIAL COMMUNITIES INITIATIVE (R)



Fort Lewis, WA.



RESIDENTIAL COMMUNITIES INITIATIVE

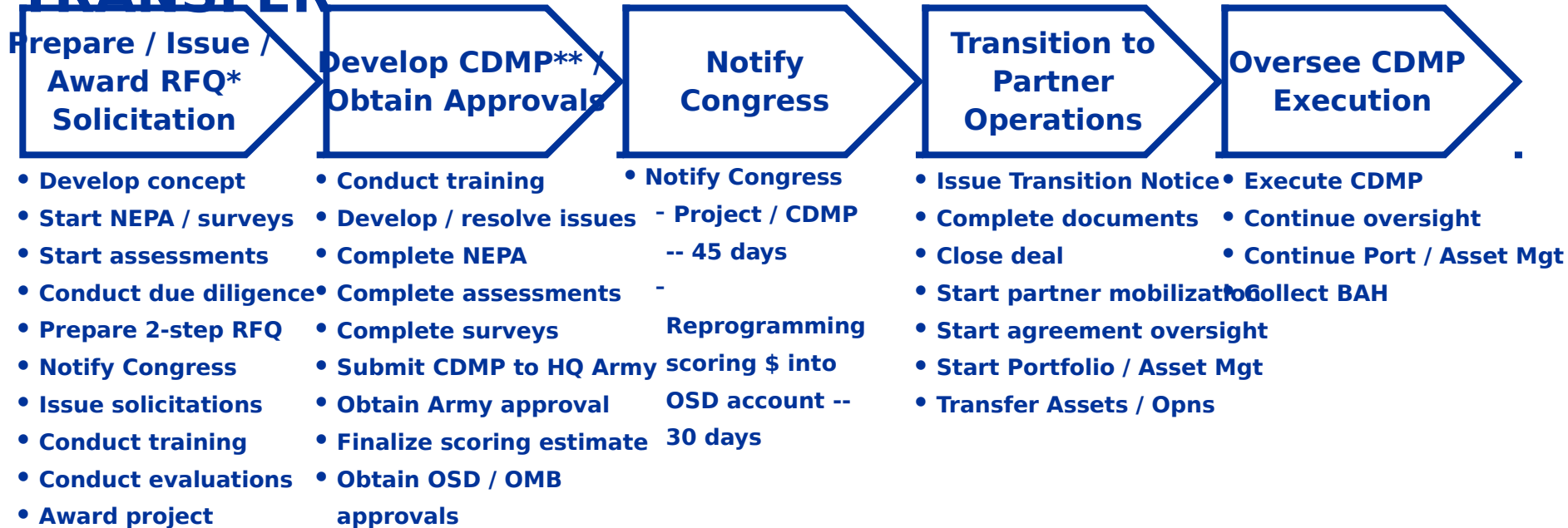
Assistant Secretary of the Army (Installations and Environment)



RCI PROCESS

PROJECT CONCEPT TO

TRANSFER



* Request for Qualifications

** Community Development and Management Plan

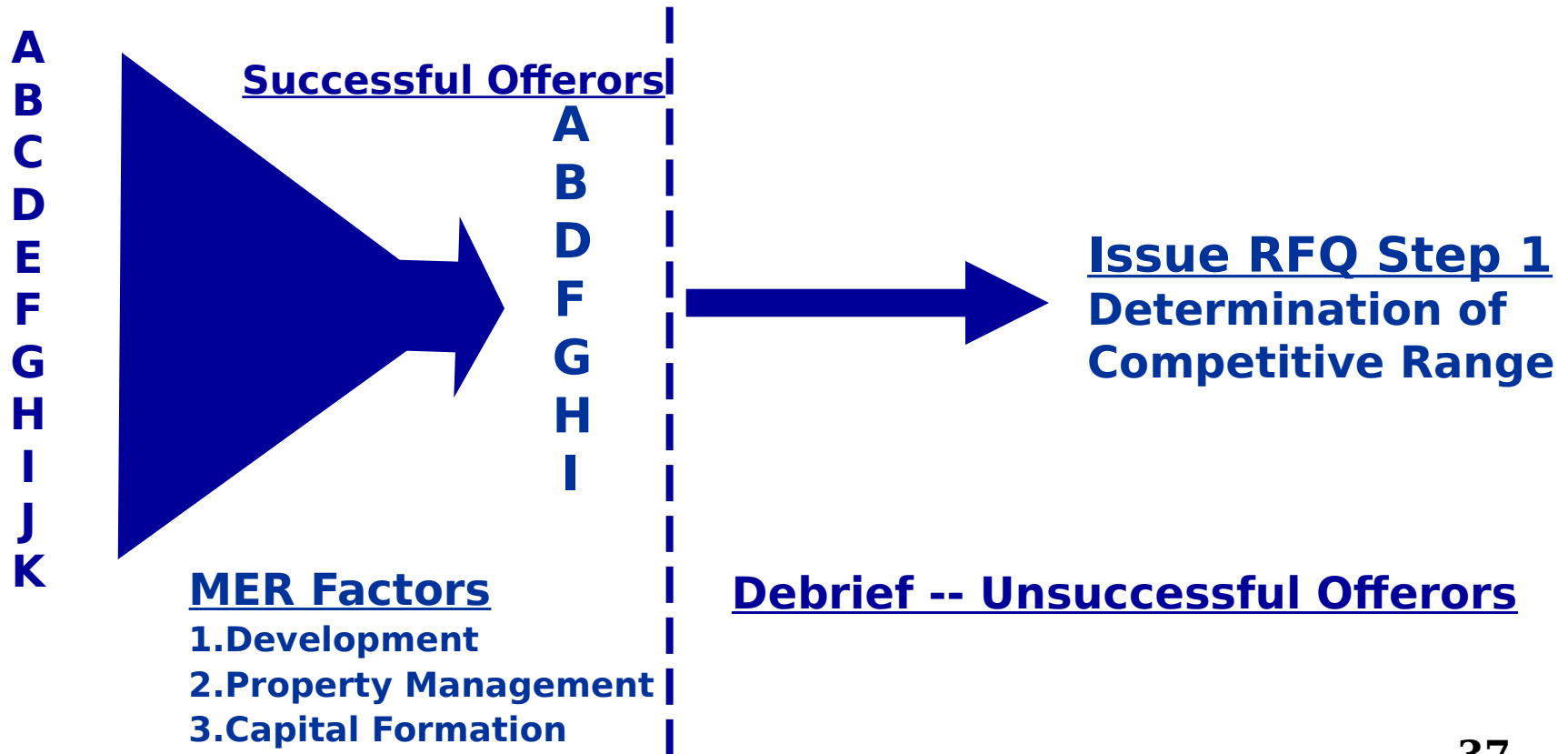


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Assistant Secretary of the Army (Installations and Environment)



RCI PROCESS

STREAMLINED PROCUREMENT (INITIAL SCREEN) Minimum Experience Requirements (MER) Evaluation





RESIDENTIAL COMMUNITIES INITIATIVE *Assistant Secretary of the Army (Installations and Environment)*



RCI PROCESS -- STREAMLINED PROCUREMENT

Is a 4-Project Group the Same as a 1-Project Group that has Multiple Projects

Bidders

A
B
D
F
G
H
I

**Step 1
Evaluation
Factors (5)**

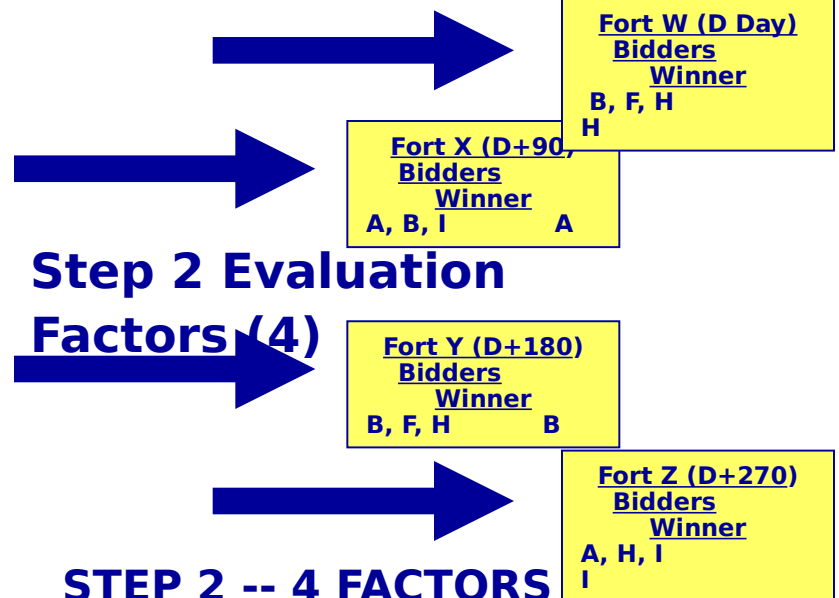
STEP 1 -- 5 FACTORS

- 1 -- Experience
- 2 -- Financial Capability
- 3 -- Organizational Capability (Corporate)
- 4 -- Past Performance
- 5 -- Small Business (Past Use)

Bidders Who Make
Competitive Range

A
B
F
H
I

Selects a Bidder from a Group Projects (4-Project Group Example)



STEP 2 -- 4 FACTORS

- 1 -- Preliminary Concept
- 2 -- Financial Return
- 3 -- Organizational Capability (Installation)
- 4 -- Small Business (Proposed Use)



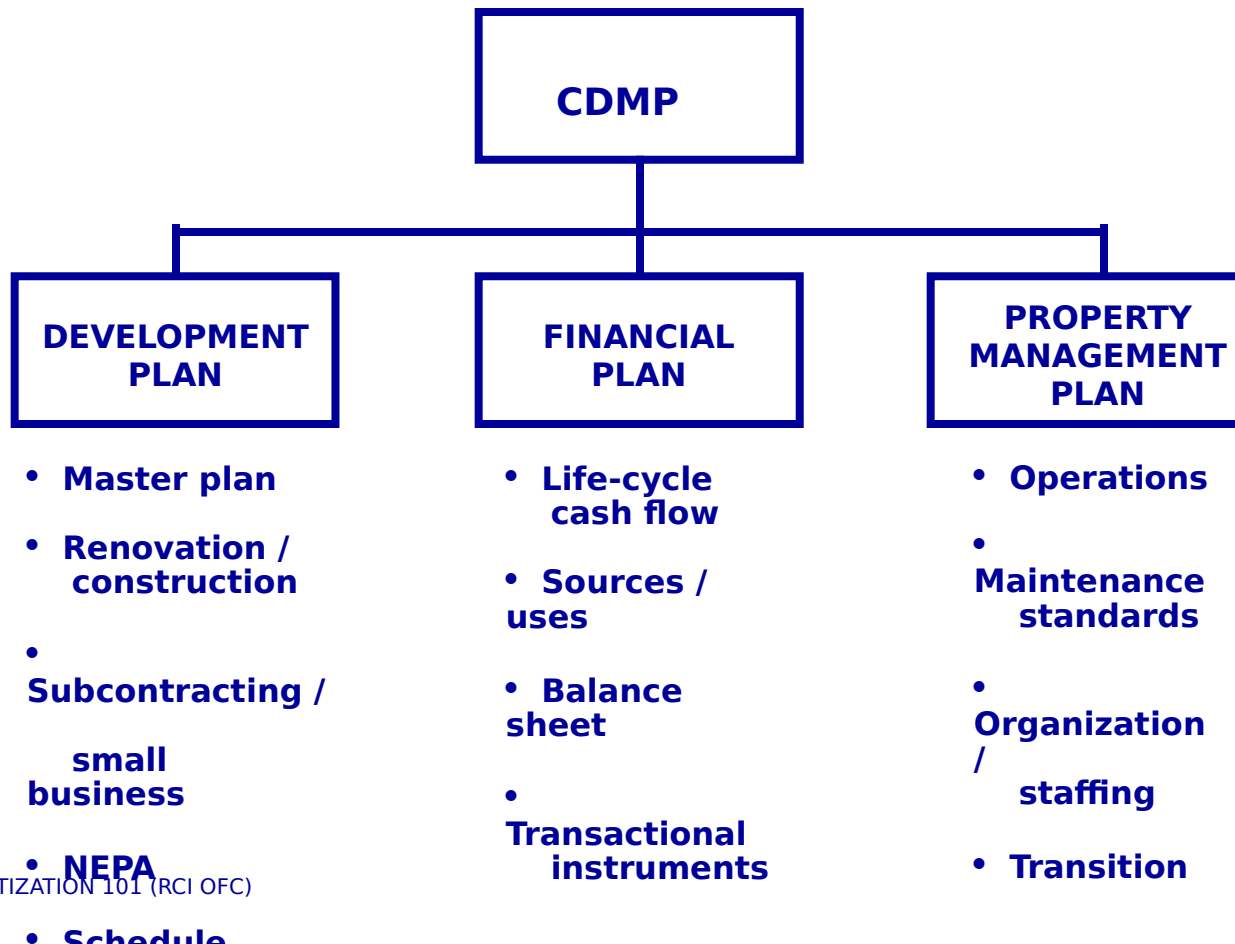
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RCI PROCESS

CDMP COMPONENTS -- 3 MAJOR SECTIONS / PLANS

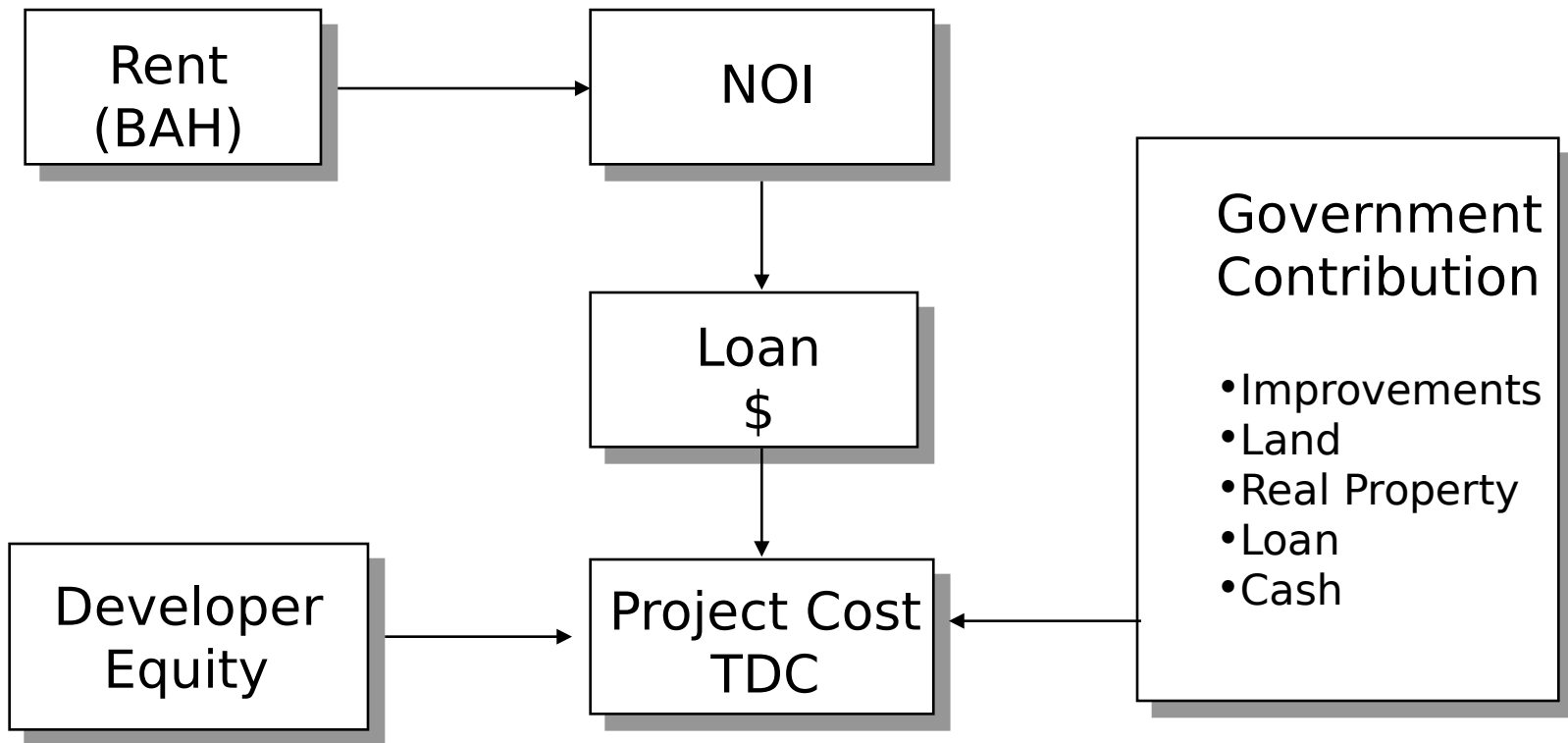




Department of the Navy Public-Private Ventures (PPV)

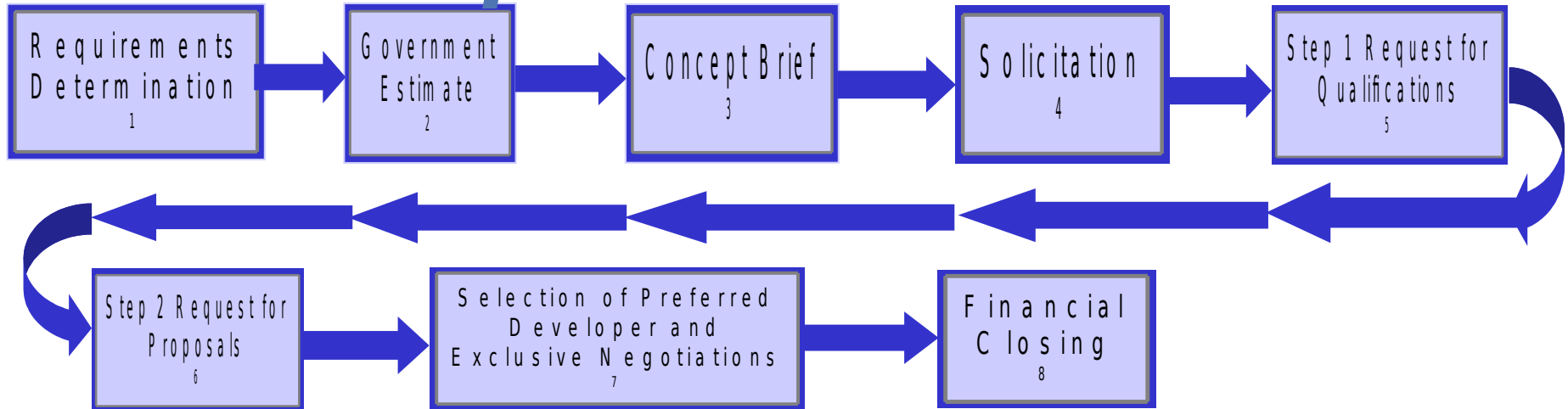


Economic Anatomy of a PPV



NOI: Net Operating Income

Selection of Preferred Developer



- 1. Requirements identified per CNI-approved Housing Market Analysis.**
- 2. Feasibility analysis and proforma using market rates/costs and standard industry sources (IREM, MEANS, CPI), and historical data.**
- 3. OSD-determined contents, including Life Cycle Analysis and Leverage Calculation.**
- 4. OSD-approved statement of project requirements, including repair/renovation of existing inventory, construction of new units, Navy contribution, and long-term re-capitalization; followed by Congressional notification.**
- 5. Step 1: Statement of Qualifications addressing Vision; Team Composition; Key Project Participants; Development and Operation/Management Experience; Financial Information. Average of 6-8 submissions.**
- 6. Step 2: 3-5 developers invited to submit Technical and Financial Proposals.**
- 7. Executive review/approval by Region, CNI, N4, ASN (I&E), and OSD; followed by Congressional notification. On-**

Headquarters U.S. Air Force

***I n t e g r i t y - S e r v i c e - E x c e l l e n
c e***

Air Force Housing Privatization



U.S. AIR FORCE



U.S. AIR FORCE

AF Housing Privatization Deal Points

- ***AF Privatization are not a partnership, developer will build, own and operation properties for 50 years***
 - **Successful Offers accepts conveyance of existing housing and other direct support facilities as required**
 - **Most deals have AF leasing land to developer**
 - **Developer owns, maintains and operates housing for 50 years**
- ***Amount of government involvement depends on many factors***
 - **Condition of existing housing conveyed and amount of additional work required**
 - **Amount of BAH the units will draw**
 - **Need for a loan guarantee—not intended to be “BRAC Proofing”**

~~▪ ***“Lockbox Accounts” ensure bills are paid and residents are happy***~~

Integrity - Service - Excellence



AF Evaluation Process

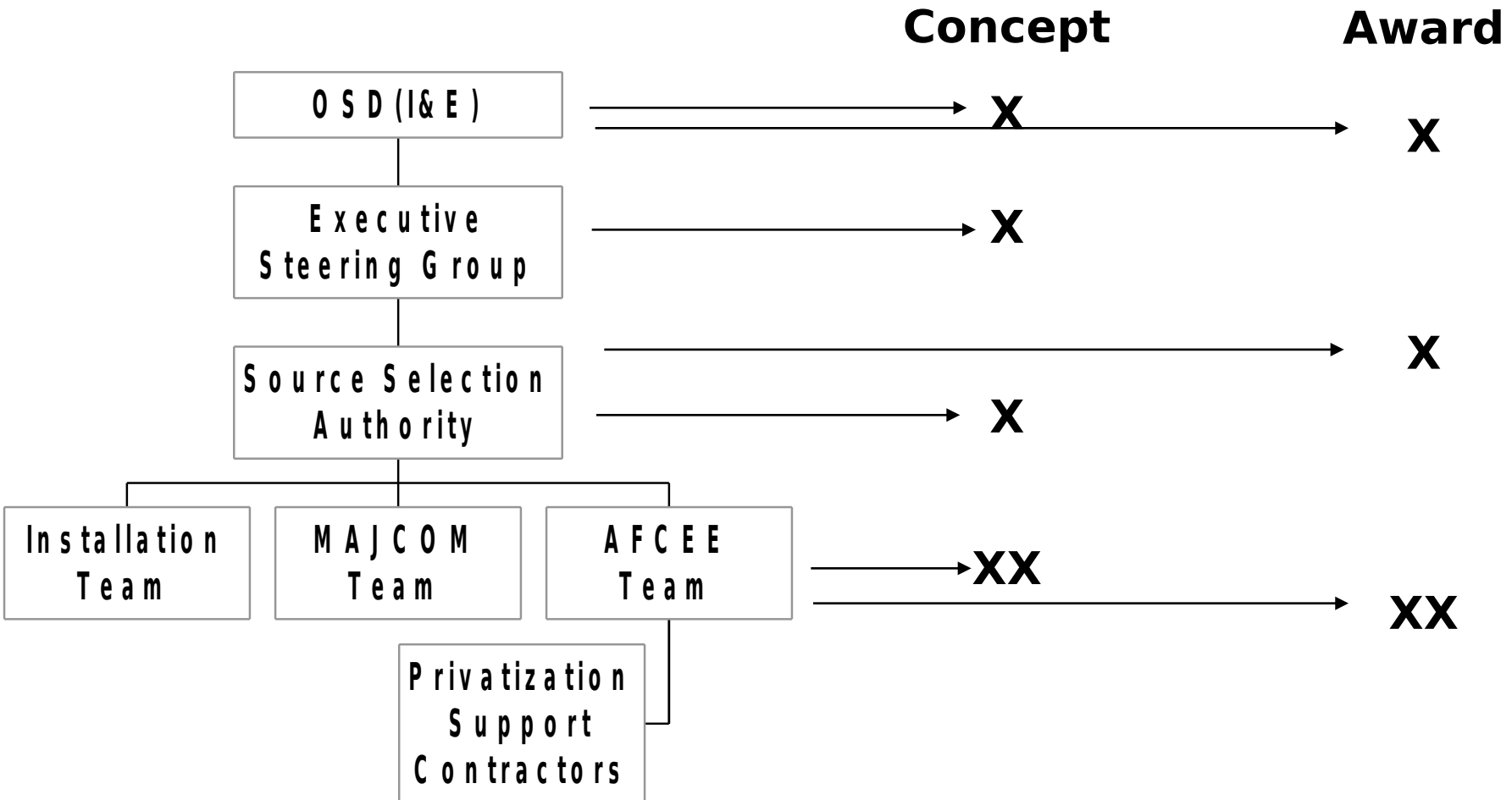
U.S. AIR FORCE

- ***Two-step Solicitation and Evaluation***
 - ***Integrated, “Best Value” assessment against RFP factors***
- ***Step 1 offerors evaluated on qualifications, past performance and initial concept proposal***
 - ***No more than 5 Offerors are “down-selected” to move to Step 2***
- ***Step 2 Source Selection Team evaluates offerors detailed proposal***
- ***The selection authority chooses offeror providing “Best Value”***
 - ***SAF/IEI concurs selection***
- ***RFP identifies minimums & AF’s desired features***



AF Approval Points

U.S. AIR FORCE



X: Approval Point

Pre-Closing/Award Activities



Fort Meade, MD



Pre-Closing/Award Activities

- Once a successful development team is selected, the Service provides Congress a 30-day notice, prior to closing the deal
- During the 30-day Congressional notification period, the Service and successful development team spend much of their time preparing for closing the deal



Pre-Closing/Award Activities

- During the pre-closing phase, the successful development team and Service usually
 - Identify conditions that must be met prior to deal closing; this is also referred to as “pre-closing conditions”
 - Finalize the legal agreements
 - Establish the escrow, reserve, lockbox and other requisite bank accounts
 - Obtain required insurance coverage
 - Participate in a partnering session with installation (coordinate payment by allotment, town hall meetings, etc.)
 - Establish the Management Review Committee (MRC)
 - Finalize the Transition Plan



Questions, Answers and Reference Materials



Naval Complex San Diego, CA



Questions, Answers and Reference

*Visit the Department of Defense's
Military Housing Privatization
Homepage at*

<http://www.acq.osd.mil/housing/>

*for information on housing projects,
references and reporting, and
miscellaneous information.*



Questions, Answers and Reference

Housing project information on our website includes

- Awarded housing privatization projects
- Upcoming projects
- Tenant profile
- Project status
- Links to each Services' MHPI website



Questions, Answers and Reference

References and reporting on our website includes

- Reports by Military Services,
- Congressional report requirements,
- Military housing privatization references,
- Congressional testimonies,
- About military housing,
- Privatization frequently asked questions (FAQ)



- Privatization 101

Questions, Answers and Reference

Miscellaneous information on our website includes

- What's new?
- Interested in doing business with DoD?
- Basic Allowance for Housing (BAH)
- Legislative authorities
- Related sites
- Search



